

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1010 - SB 1151

March 9, 2021

SUMMARY OF BILL: Authorizes the State Treasurer to establish a captive insurance company, administratively attached to the Department of Treasury, for the purpose of insuring the state of Tennessee's departments, agencies, and institutions of higher education from various potential losses, exposures, and risks. Authorizes the Department of Commerce and Insurance (DCI) to have regulatory oversight over the captive insurance company. Authorizes the State Treasurer to administer day-to-day operations of the captive insurance company. Any funds received by the captive insurance company would be invested by the State Treasurer. Establishes that any remaining balance from the captive insurance company is carried forward into subsequent fiscal years. Authorizes expenditures associated with the operation of the captive insurance company to come from the Risk Management Fund. Removes expenses and losses associated with the Life Cycle Cost and Procurement Act of 1978 from eligibility of receiving funds from the Risk Management Fund.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue – \$1,100/FY21-22/Department of Commerce and Insurance
\$500/FY22-23 and Subsequent Years/
Department of Commerce and Insurance**

**Increase State Expenditures – \$1,100/FY21-22/Risk Management Fund
\$319,000/FY22-23 and Subsequent Years/
Risk Management Fund**

**Decrease State Expenditures - \$3,391,500/FY22-23 and Subsequent Years/
Various Departments and Agencies**

Other Fiscal Impact – A total of \$17,000,000 will be appropriated from the Risk Management Fund to be held by the Department of Treasury for the purpose of the captive insurance company. Furthermore, the amount and frequency of claims to be awarded because of the captive insurance company may result in various appropriations from the Risk Management Fund to the Department of Treasury.

Assumptions:

- Based on information from the Department of Treasury, it is estimated that a captive insurance company would begin coverage of the State's property insurance risk, valued at approximately \$25,000,000.
- An actuarial determination from the Department of Treasury assumes a one-time increase in state expenditures of \$17,000,000 from the Risk Management Fund and a corresponding increase in revenue to the Department of Treasury would be necessary to fund the captive insurance company in FY21-22.
- It is further estimated that the Department of Treasury will need four new positions for management and administration of the captive insurance company.
- The Department of Treasury assumes that the captive insurance company will not be operational until FY22-23, therefore, any expenditures or revenue associated with the operation of the captive insurance company are estimated to begin in FY22-23.
- The increase in expenditures for staff is estimated to be \$135,017 (\$110,000 salary + \$25,017 benefits) for a captive insurance manager, \$76,712 (\$60,000 salary + \$16,712 benefits) for an actuary, \$65,051 (\$50,000 salary + \$15,051 benefits) for an auditor, and \$41,729 (\$30,000 salary + \$11,729 benefits) for an administrative assistant for a total recurring increase in state expenditures of \$318,509 (\$135,017 + \$76,712 + \$65,051 + \$41,729) beginning in FY22-23 from the Risk Management Fund.
- Actuarial determinations from the Department of Treasury's actuaries assume that the overall state expenditures for catastrophic coverage would be reduced by \$3,391,500 from various agencies and departments in FY22-23 and subsequent years.
- The shift in premium payments originating from state agencies, departments and institutions of higher education from third party vendors to the captive insurance company created by the proposed legislation would be significant, however the exact amount of such payments is considered undeterminable at this time.
- According to DCI website, the fees for a captive insurance company operating in this state are as follows: \$675 application fee; \$440 certificate of authority issuance fee; \$515 annual statement filing fee; and \$7 certificate of compliance fee.
- It is estimated that there would be a one-time increase in state revenue to DCI and a corresponding increase in expenditures from the Risk Management Fund of \$1,115 (\$675 + \$440) in FY21-22 and \$522 (\$515 + \$7) in FY22-23 and subsequent years.
- The total increase in state expenditures from the Risk Management Fund is estimated to be \$319,031 (\$318,509 + \$522) in FY22-23 and subsequent years.
- Any cost associated with DCI's regulatory oversight is estimated to be absorbable within existing DCI staff and resources.
- Any interest accrued by the State Treasurer from investing the appropriated Risk Management Fund monies is estimated to be offset by a corresponding increase in claims.
- Furthermore, the possibility of the captive insurance company needing recurring appropriations or multiple one-time lump sums for the funding of claims and premiums from the Risk Management Fund is unknown. The Governor's recommended budget for FY21-22 recognizes a Risk Management Fund balance of \$76,750,700.

IMPACT TO COMMERCE:

Other Commerce Impact – Any decrease in business revenue as a result of premiums and broker fees now being reduced through the Department of Treasury’s captive insurance company is unknown, as the location of these insurance companies could be out of state entities or may continue to receive revenue as a third-party vendor for the newly created captive insurance company. Furthermore, any decrease in business expenditures as a result of no longer paying claims is considered to be unknown at this time.

Jobs Impact – Not Significant

Assumptions:

- Should the State Treasurer use third party vendors as part of the newly created captive insurance company, the net decrease or increase in revenue to these insurance companies could be offset to some extent.
- Furthermore, any decrease in expenditures from no longer having to pay future claims is unknown and is considered to be undeterminable at this time.
- Any impact to jobs in Tennessee is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Bojan Savic, Interim Executive Director

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